



Alam Maritim In The News

Media: The STAR

Date: Monday November 10, 2008

## Concern over high capital expenditure

By YEOW POOI LING

**News of international oil companies cutting spending has raised concerns for Malaysian oil and gas support service providers.**

### **KNM Group Bhd**

While several oil majors have slashed capital expenditure (capex), there are others who proceeded with their plans such as Chevron, ConocoPhillips and Total, says KNM Group Bhd managing director Lee Swee Eng.



Ng Chin Heng

Some delayed launching new contracts because they wanted to allow the impact of declining material costs to flow into their new exploration and production (E&P) activities.

Reduction in material prices will have an impact on development cost. Oil majors will now look for cheaper bids, he said.

Commodity prices of nickel and steel, together with crude oil, have fallen to the same levels in the first quarter of 2006, when the oil and gas boom started.

Specialised steel material and stainless steel used for process equipment had fallen by about 10% and 20% respectively in the past two months, Lee said.

As cost reductions are passed on to customers, they do not affect KNM's margins. The percentage of margin stays the same. Although the absolute number may be less because of the smaller contract values, he said.



Lee Swee Eng

Noting the funding issue globally, KNM will now focus on organic growth via internal consolidation and moving up the value chain.

Borsig's acquisition gives us the opportunity to manufacture their products for our clients in Asia. Gradually we will phase out low end products from our Malaysian plants, he said.

On its high receivables, Lee explained that KNM had to account for Borsig's full year receivables while revenue wise, only one month of Borsig's turnover was consolidated into the group.

It's an accounting standard.

We completed the Borsig acquisition in June so for the second quarter results, we can only recognise one month of Borsig's contribution, he added.

### **Coastal Contracts Bhd**

Coastal Contracts Bhd considers the downsizing capex by oil majors as a correction from a drunken mode back to normal circumstances.

Note that oil giants' investment before the cut back may have been decided when all corners of the world were embracing the overzealous expectation of prices heading toward US\$200 per barrel, said executive chairman Ng Chin Heng.

The majority of the players are paring down capex and not aborting them totally, hence there would still be some projects skewed towards a higher internal rate of return while avoiding heavy investment such as oil sands exploration, he added.

Even with the present credit crunch happening worldwide, Coastal does not expect default payments, as its clients are fundamentally strong international players.

### **Alam Maritim Resources Bhd**

Alam Maritim Resources Bhd managing director and chief executive officer Azmi Ahmad believes there is a silver lining to falling oil prices, as it would help keep our energy costs down.

The price of marine gas oil, for example, has dipped by almost half to RM3.70 per litre from RM2.70 per litre. He said the reduction was passed on to clients and did not impact its operating margins.

Alam Maritim, which owns 26 ships, charters its vessels out to oil majors while providing other offshore facilities such as marine construction, sub-sea engineering services and offshore pipeline construction.

The fall of crude oil prices and the global financial crisis would eventually lead to lower daily charter rates (DCR) of offshore vessels.

However, the rate drop was unlikely to be drastic due to the scarcity of Malaysian flagged ships, which were preferred by Petronas, he said.

The demand for new vessels, which meet oil companies' stringent technological and safety requirements, will benefit Alam Maritim's young fleet.

Azmi noted that 80% of the world anchor handling tug supply were older than 20 years and not well equipped for longer term contracts.

The capacity strain on shipbuilding, whereby at least 18 to 30 months are needed to complete a vessel, as well as the replacement boom, would fuel demand for new vessels in the next three to five years, he added.

Alam Maritim is currently in the process of setting up its own shipyard repair facilities as well as in house expertise to carry out major maintenance and to dock its own vessels.

This will enable us to reduce repair costs substantially as we do not need to send our vessels to Singapore or Indonesia for repairs anymore, Azmi said.

### **Tanjung Offshore Bhd**

Credit tightening by global banks is not expected to hurt payments by clients, says Tanjung Offshore Bhd business development director Hamidon Md Khayon.

Instead, it may serve as a barrier of entry for new players as they would find it difficult to secure financing in a sector that is investment intensive.

This would help Tanjung Offshore to continue to enlarge its market share within the support services segment.

It is also fortunate that despite the current economic uncertainty, local Malaysian service providers are still very busy with the existing number of fields which has offshore platforms still undergoing development, production and maintenance.

While it hasn't seen lower material costs, any cost adjustments would be passed on to customers without hurting the company's profit margins, Hamidon said.